# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

**July 2007: budgetary surplus of $1.4 billion**

There was a budgetary surplus of $1.4 billion in July 2007, up $0.6 billion from the $0.8-billion surplus recorded in July 2006. Budgetary revenues were up $1.0 billion or 5.2 per cent from July 2006, reflecting strong gains in corporate income tax revenues. Program expenses increased by $0.5 billion, or 3.3 per cent, due to higher transfer payments and departmental operating expenses. Public debt charges were $0.1 billion lower.

**April to July 2007: budgetary surplus of $7.8 billion**

For the first four months of the 2007–08 fiscal year, the budgetary surplus is estimated at $7.8 billion, up $1.0 billion from the $6.7-billion surplus reported in the same period last year. One-third of the surplus reflects growth in corporate income tax collections (up 25 per cent through July), which are highly variable on a monthly basis. Budgetary revenues increased by $4.9 billion or 6.5 per cent over last year, driven by both higher income tax revenues and non-tax revenues. Program expenses rose $3.7 billion, or 6.4 per cent, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence. Public debt charges increased by $0.1 billion, or 1.2 per cent.

### July 2007

There was a budgetary surplus of $1.4 billion in July 2007, up $0.6 billion from July 2006.

Budgetary revenues increased by $1.0 billion, or 5.2 per cent, to $20.2 billion.

- Personal income tax revenues declined by $0.2 billion, or 2.1 per cent, reflecting one less large processing day in July 2007 than in July 2006.
- Corporate income tax revenues rose $1.0 billion, or 50.4 per cent. A significant portion of this strength reflects a large prior-year refund paid in July 2006, which lowered net receipts in that month, consequently boosting the growth in net receipts in July of this year.
- Other income tax revenues—withholdings from non-residents—increased by 2.3 per cent.
- Excise taxes and duties were up $0.4 billion, or 9.2 per cent, reflecting a $0.2-billion gain in both goods and services tax (GST) and sales and excise tax revenues.
- Employment Insurance (EI) premium revenues decreased by 3.6 per cent, reflecting the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.

- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were down $0.1 billion, or 6.3 per cent. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of large transactions from year to year.

Program expenses in July 2007 were $15.9 billion, up $0.5 billion, or 3.3 per cent, from July 2006, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments were up $0.3 billion, or 2.9 per cent.

- Transfers to persons, consisting of elderly, EI and children's benefits, were up $0.2 billion, or 4.2 per cent. Elderly benefits increased 4.3 per cent while EI benefits rose 5.2 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were up 2.8 per cent.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities and Alternative Payments for Standing Programs, were virtually unchanged.
- Subsidies and other transfers increased by $0.1 billion, or 8.4 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased $0.2 billion, or 4.0 per cent.

Public debt charges decreased by $78 million.

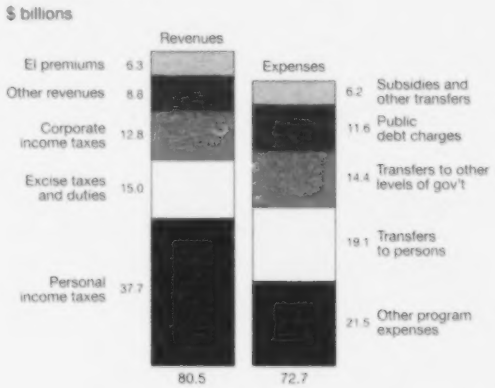
### April to July 2007

Through the first four months of the 2007–08 fiscal year, there was a budgetary surplus of $7.8 billion, up $1.0 billion from the $6.7-billion surplus reported during the same period of 2006–07.

On a year-over-year basis, budgetary revenues increased by $4.9 billion, or 6.5 per cent, to $80.5 billion.

- Personal income tax revenues rose $1.3 billion, or 3.5 per cent, reflecting growth in employment and wages and salaries.
- Corporate income tax revenues were up $2.6 billion, or 25.0 per cent. However, corporate tax receipts are highly variable on a monthly basis, and it is expected that this strength will dissipate as the fiscal year progresses.

**Revenues and expenses**
(April to July 2007)



- Other income tax revenues rose 12.2 per cent, also reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties were down $0.3 billion, or 1.7 per cent, due to a $0.5-billion decline in GST revenues. The drop in GST revenues reflects the 1-percentage-point reduction in the GST rate effective July 1, 2006. Sales and excise taxes rose $151 million, customs import duties increased $116 million and revenues from the Air Travellers Security Charge were up $9 million.
- EI premium revenues increased by $0.2 billion, or 3.1 per cent, reflecting growth in employment and wages and salaries, which more than offset the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues increased $0.9 billion, or 15.2 per cent.

Program expenses in the April to July 2007 period were $61.2 billion, up $3.7 billion, or 6.4 per cent, from the same period of 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies.

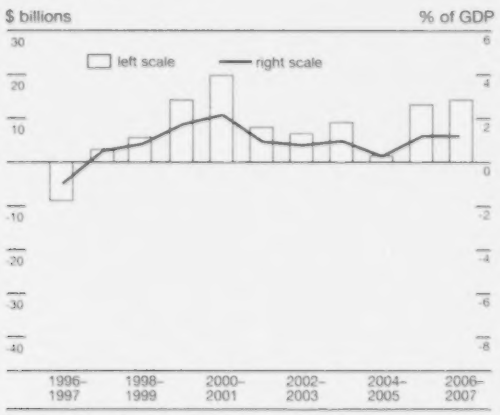
Transfer payments increased $1.9 billion, or 5.1 per cent.

- Transfers to persons rose $1.4 billion, or 7.6 per cent. Elderly benefits increased 4.4 per cent while EI benefits rose 5.8 per cent. Children's benefits were up $0.7 billion, reflecting transfers under the UCCB, which began in July 2006.
- Transfers to other levels of government were up $0.8 billion, or 5.9 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were down $0.2 billion, or 3.4 per cent.

Other program expenses increased by $1.8 billion, or 9.0 per cent.

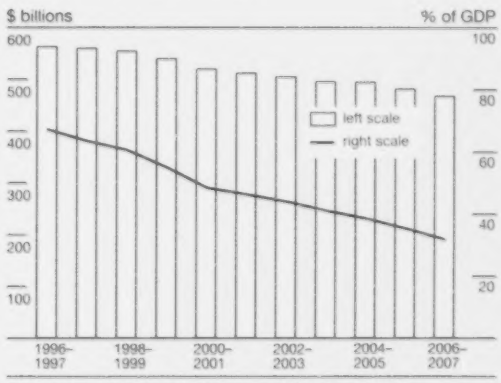
Public debt charges increased by $0.1 billion, or 1.2 per cent.

**Budgetary balance**




Sources: Department of Finance and Statistics Canada.

**Federal debt (accumulated deficit)**




Sources: Department of Finance and Statistics Canada.

**Financial source of $6.8 billion for April to July 2007**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out.
This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of $7.8 billion and a requirement of $1.0 billion from non-budgetary transactions, there was a net financial source of $6.8 billion in the April to July 2007 period, compared to a net financial source of $2.9 billion in the same period last year.

**Net financing activities down $24.6 billion**

The Government used this net financial source of $6.8 billion and a reduction in its cash balances of $17.9 billion to reduce its market debt by $24.6 billion by the end of July 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of July stood at $3.4 billion.

Table 1

**Summary statement of transactions**

| | July | | April to July | |
|---|---|---|---|---|
| | 2006 | 2007 | 2006–07 | 2007–08 |
| | ($ millions) | | | |
| **Budgetary transactions** | | | | |
| Revenues | 19,151 | 20,151 | 75,630 | 80,511 |
| Expenses | | | | |
| Program expenses | -15,380 | -15,881 | -57,487 | -61,184 |
| Public debt charges | -2,938 | -2,860 | -11,425 | -11,560 |
| Budgetary balance (deficit/surplus) | 833 | 1,410 | 6,718 | 7,767 |
| **Non-budgetary transactions** | 1,781 | 410 | -3,782 | -1,007 |
| **Financial source/requirement** | 2,614 | 1,820 | 2,936 | 6,760 |
| **Net change in financing activities** | -1,323 | -3,246 | -16,813 | -24,614 |
| **Net change in cash balances** | 1,291 | -1,426 | -13,877 | -17,854 |
| **Cash balance at end of period** | | | 4,085 | 3,356 |

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

**Budgetary revenues**

| | July | | | April to July | | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | Change | 2006–07 | 2007–08 | Change |
| | ($ millions) | | (%) | ($ millions) | | (%) |
| **Tax revenues** | | | | | | |
| Income taxes | | | | | | |
| Personal income tax | 9,590 | 9,389 | -2.1 | 36,417 | 37,690 | 3.5 |
| Corporate income tax | 1,990 | 2,992 | 50.4 | 10,239 | 12,801 | 25.0 |
| Other income tax | 430 | 440 | 2.3 | 1,436 | 1,611 | 12.2 |
| Total income tax | 12,010 | 12,821 | 6.8 | 48,092 | 52,102 | 8.3 |
| Excise taxes and duties | | | | | | |
| Goods and services tax | 2,765 | 2,923 | 5.7 | 10,865 | 10,329 | -4.9 |
| Customs import duties | 315 | 330 | 4.8 | 1,122 | 1,238 | 10.3 |
| Sales and excise taxes | 787 | 972 | 23.5 | 3,106 | 3,257 | 4.9 |
| Air Travellers Security Charge | 31 | 30 | -3.2 | 127 | 136 | 7.1 |
| Total excise taxes and duties | 3,898 | 4,255 | 9.2 | 15,220 | 14,960 | -1.7 |
| Total tax revenues | 15,908 | 17,076 | 7.3 | 63,312 | 67,062 | 5.9 |
| **Employment Insurance premiums** | 1,365 | 1,316 | -3.6 | 6,102 | 6,290 | 3.1 |
| **Other revenues** | 1,878 | 1,759 | -6.3 | 6,216 | 7,159 | 15.2 |
| **Total budgetary revenues** | 19,151 | 20,151 | 5.2 | 75,630 | 80,511 | 6.5 |

Note: Totals may not add due to rounding.

Table 3
**Budgetary expenses**

| | July | | | April to July | | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | Change | 2006–07 | 2007–08 | Change |
| | ($ millions) | | (%) | ($ millions) | | (%) |
| **Transfer payments** | | | | | | |
| Transfers to persons | | | | | | |
| Elderly benefits | 2,493 | 2,600 | 4.3 | 10,023 | 10,461 | 4.4 |
| Employment Insurance benefits | 1,087 | 1,143 | 5.2 | 4,325 | 4,577 | 5.8 |
| Children's benefits | 1,015 | 1,043 | 2.8 | 3,407 | 4,069 | 19.4 |
| Total | 4,595 | 4,786 | 4.2 | 17,755 | 19,107 | 7.6 |
| Transfers to other levels of government | | | | | | |
| Support for health and other social programs | | | | | | |
| Canada Health Transfer | 1,678 | 1,779 | 6.0 | 6,713 | 7,116 | 6.0 |
| Canada Social Transfer | 708 | 733 | 3.5 | 2,833 | 3,183 | 12.4 |
| Total | 2,386 | 2,512 | 5.3 | 9,546 | 10,299 | 7.9 |
| Fiscal transfers | 1,143 | 1,281 | 12.1 | 4,422 | 4,686 | 6.0 |
| Canada's cities and communities | 0 | 384 | n/a | 0 | 386 | n/a |
| Early learning and child care | 650 | 0 | n/a | 650 | 0 | n/a |
| Alternative Payments for Standing Programs | -239 | -262 | 9.6 | -1,044 | -998 | -4.4 |
| Total | 3,940 | 3,915 | -0.6 | 13,574 | 14,373 | 5.9 |
| Subsidies and other transfers | | | | | | |
| Agriculture and Agri-Food | 89 | 78 | -12.4 | 310 | 307 | -1.0 |
| Foreign Affairs and International Trade | 178 | 19 | -89.3 | 707 | 615 | -13.0 |
| Health | 224 | 292 | 30.4 | 655 | 784 | 19.7 |
| Human Resources and Social Development | 97 | 67 | -30.9 | 596 | 583 | -2.2 |
| Indian Affairs and Northern Development | 356 | 348 | -2.2 | 1,649 | 1,679 | 1.8 |
| Industry | 172 | 204 | 18.6 | 523 | 558 | 6.7 |
| Other | 308 | 536 | 74.0 | 2,016 | 1,710 | -15.2 |
| Total | 1,424 | 1,544 | 8.4 | 6,456 | 6,236 | -3.4 |
| Total transfer payments | 9,959 | 10,245 | 2.9 | 37,785 | 39,716 | 5.1 |
| **Other program expenses** | | | | | | |
| Crown corporation expenses | | | | | | |
| Canadian Broadcasting Corporation | 62 | 100 | 61.3 | 477 | 560 | 17.4 |
| Canada Mortgage and Housing Corporation | 172 | 162 | -5.8 | 640 | 616 | -3.8 |
| Other | 303 | 283 | -6.6 | 1,218 | 1,353 | 11.1 |
| Total | 537 | 545 | 1.5 | 2,335 | 2,529 | 8.3 |
| Defence | 1,354 | 1,443 | 6.6 | 4,831 | 5,120 | 6.0 |
| All other departments and agencies | 3,530 | 3,648 | 3.3 | 12,536 | 13,819 | 10.2 |
| Total other program expenses | 5,421 | 5,636 | 4.0 | 19,702 | 21,468 | 9.0 |
| **Total program expenses** | 15,380 | 15,881 | 3.3 | 57,487 | 61,184 | 6.4 |
| **Public debt charges** | 2,938 | 2,860 | -2.7 | 11,425 | 11,560 | 1.2 |
| **Total budgetary expenses** | 18,318 | 18,741 | 2.3 | 68,912 | 72,744 | 5.6 |

Note: Totals may not add due to rounding.

Table 4

**The budgetary balance and financial source/requirement**

| | July | | April to July | |
|---|---|---|---|---|
| | 2006 | 2007 | 2006–07 | 2007–08 |
| | ($ millions) | | | |
| **Budgetary balance (deficit/surplus)** | 833 | 1,410 | 6,718 | 7,767 |
| **Non-budgetary transactions** | | | | |
| Capital investing activities | -187 | -774 | -299 | -903 |
| Other investing activities | 11 | 47 | 463 | 140 |
| Pension and other accounts | -842 | 373 | 124 | 1,633 |
| Other activities | | | | |
| Accounts payable, receivables, accruals and allowances | 2,980 | 1,234 | -5,662 | -5,088 |
| Foreign exchange activities | -431 | -742 | 647 | 2,112 |
| Amortization of tangible capital assets | 250 | 272 | 945 | 1,099 |
| Total other activities | 2,799 | 764 | -4,070 | -1,877 |
| **Total non-budgetary transactions** | 1,781 | 410 | -3,782 | -1,007 |
| **Net financial source/requirement** | 2,614 | 1,820 | 2,936 | 6,760 |

Note: Totals may not add due to rounding.

Table 5

**Financial source/requirement and net financing activities**

| | July | | April to July | |
|---|---|---|---|---|
| | 2006 | 2007 | 2006–07 | 2007–08 |
| | ($ millions) | | | |
| **Net financial source/requirement** | 2,614 | 1,820 | 2,936 | 6,760 |
| **Net increase (+)/decrease (-) in financing activities** | | | | |
| Unmatured debt transactions | | | | |
| Canadian currency borrowings | | | | |
| Marketable bonds | 468 | 710 | -1,431 | -2,500 |
| Treasury bills | -1,500 | -4,200 | -11,100 | -19,100 |
| Canada Savings Bonds | -84 | -178 | -302 | -441 |
| Other | -223 | -105 | -910 | -498 |
| Total | -1,339 | -3,773 | -13,743 | -22,539 |
| Foreign currency borrowings | -86 | 179 | -2,909 | -398 |
| Total | -1,425 | -3,594 | -16,652 | -22,937 |
| Cross-currency swap revaluation | 2 | 261 | 0 | -1,798 |
| Unamortized discounts on debt issues | 106 | 111 | -121 | 167 |
| Obligations related to capital leases | -6 | -24 | -40 | -46 |
| **Net change in financing activities** | -1,323 | -3,246 | -16,813 | -24,614 |
| **Change in cash balance** | 1,291 | -1,426 | -13,877 | -17,854 |

Note: Totals may not add due to rounding.

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September 2007